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LIFE INSURANCE CATECHISM

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By THEODORE J. VENN

(Author of "Large United States Cents," "United States Half Cents," Etc.)

Including a brief history of the various forms of life insurance, a description of the different kinds of policies issued, and a complete explanation of the legal reserve annually set aside by all old-line companies to meet the individual policy-holder's increasing mortality rate. In the treatment of this reserve or reinsurance fund special pains have been taken to show clearly not only its absolute necessity in writing enduring insurance but also its advantages as a financial protection for old age, and to illustrate the manner in which it constantly decreases, in participating contracts, the net annual cost of insurance in the face of advancing years.

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By THEODORE J. VENN

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TO the great army of men engaged in writing honest life insurance, through whose persistent efforts, frequently under the most discouraging circumstances, thousands of families have been saved from financial distress and many an old age placed above want, this work is dedicated, with the hope that the facts therein presented may find fertile soil, and, at least in some instances, render less arduous their labors.

PREFACE

HAPPY was the inspiration of the man who first applied the word "protection" to life insurance, for protection it surely is—protection for the family, the business partner and the creditor, and, provided it is the right kind of insurance, protection against want of the insured himself either during old age or when the need of protection for others no longer exists.

Life insurance years ago passed the experimental stage and has joined the ranks of the exact sciences. Billions have been paid out by the various companies, associations and fraternal societies in the form of death benefits, endowments and surrender values, and further billions are being held in trust for the insured or their beneficiaries. This fact attests the recognition of its almost universal need, and in view of this it is surprising to find what a lack of definite knowledge concerning insurance there is among the general public, and particularly among those who need it most and who should have policies covering the various contingencies that arise in life—namely, those with moderate or small incomes.

To make clear to the mind of the seeker of insurance knowledge such facts as he should know concerning the various kinds of life insurance, the different forms of policies issued, what the technical terms most frequently employed really mean, etc., is the object of this work. Most successfully to accomplish this I have determined upon the catechetic method—arrangement in the form of questions and answers—and the reader may rest assured that all statements made are based on fact.

I desire to state specifically that I am not engaged in the insurance business and have no axes to grind. I shall confine myself

strictly to what the history of life insurance teaches in setting forth any recommendation as to what constitutes the best form of insurance and what requirements should be met to make advisable the taking out of a policy. Under no circumstances shall I name herein any company, association or fraternal society, either favorably or to its detriment, consequently, if any of these should take umbrage at any of the statements of fact I may make, they will have history (possibly their own) and not me to blame. After outlining the provisions his policy should contain and giving all other essential information I shall leave to the reader's own judgment the matter of his future insurance affiliations.

While there are billions of dollars' worth of insurance in force there still remain many thousands of uninsured lives on which policies no doubt could be written if the people had a better understanding of the fundamental principles of the subject—if they could be brought to realize what a benefaction good life insurance really is. Then, too, there are thousands now carrying insurance who contemplate making changes owing to various readjustments and advances in rates, either now effective or in prospect, by a number of fraternal societies in this country. Many of these dissatisfied members are being besought to join this, that or the other organization, and, owing to their lack of definite knowledge of insurance details, are all at sea. If to any appreciable number of these or to any others seeking information on the subject this treatise shall light the way to secure such insurance as they desire and really should have, rather than that which in later years they are likely to conclude they did not want, I shall feel that my efforts have been rewarded with more than a zero in an age of progress.

THEODORE J. VENN.

Chicago, Ill., April 3, 1916.

CHAPTER I.

SHORT HISTORICAL REVIEW OF LIFE INSURANCE FROM THE DAYS OF THE ANCIENT GUILDS TO THE PRACTICALLY PERFECT SYSTEM OF TODAY—WHAT THE PAST HAS DEMONSTRATED.

What is life insurance and what is its principal object?

Life insurance is an agreement, and, when the policy is issued by an old line company, a contract, by an aggregation of individuals to disburse to the dependents or beneficiaries of its deceased members certain sums of money in consideration of stipulated payments (premiums) made by the insured. The primary object of insurance, regardless of its form or whether issued by a fraternal society, a legal reserve or old line company, or an assessment association, is protection for the family when the hand of Death has been laid upon the provider. If this were not its primary object, no form of life insurance could endure. But, while protection of the home always will remain the main consideration, there are also other important features connected with life insurance which should not be overlooked, and these will be covered fully under their proper captions.

When was life insurance instituted?

The institution of life insurance, so far as the payment of small benefits to insure proper burial is concerned, is shrouded in antiquity; it is older than recorded history. The ancients early recognized its need, especially in the populous centers, and provision for burial expenses was made by many of their associations or guilds, and especially by their trade guilds, which, in addition, also paid sick benefits. Of this we have ample historical evidence in the Eranoi or Thiasoi, which associations were numerous in Greece as early as the second and third centuries B. C. Similar in many respects were the Collegia of the ancient Romans. During the Middle Ages the guilds had an enormous growth throughout all Europe, reaching their highest state of development in the Teutonic countries and in England, and upon their suppression the

so-called friendly societies shortly sprung into existence. There is no doubt that the history of the guilds was largely responsible for the formation of the fraternal insurance societies as they exist in this country today, just as they are the archetype of our present-day trades unions.

Did these trade guilds prove successful so far as the death benefit features were concerned?

Yes; but it should be remembered that they were mainly associations formed for trade protection or the betterment of working conditions and the insurance feature was a minor consideration, amounting probably to less than one hundred dollars on each member; in fact, in many instances there was no specific sum mentioned, the burial aid being dispensed much on the same principle that is in vogue today among certain secret societies which have no insurance adjuncts and yet provide financial aid to members or their families when need arises. As these trade guilds included in their ranks nearly all of the skilled artisans of the day, and as membership therein was practically a necessity, there never was the slightest danger of lapse in membership when emergencies caused a temporary advance in dues.

Where and when were companies guaranteeing specific and larger amounts of insurance first established?

In England during the latter part of the seventeenth century and early in the eighteenth a number of companies proposing to pay annuities to the families of its deceased members sprung into existence, but as they lacked sufficient data, not even possessing a mortality table for their guidance, naturally they failed. To show how crude was their system of operation it is only necessary to state that they exacted the same rate of payment at all ages, though most of them excluded from admission all who had passed their forty-fifth year. In a few of these companies the fifty-fifth year was set as the maximum.

When was temporary life insurance first issued?

As early as the sixteenth century it had become customary among private underwriters in England to assume temporary risks on human lives to cover special occasions, much in the same manner as is done by Lloyd's of London today. This class of risks was

first undertaken by regularly chartered companies in England some time between the years 1720 and 1730.

When was the first life insurance society embodying the underlying principles of the present-day legal reserve or old-line companies organized?

The modern system of old-line or legal reserve insurance may be said to date its birth synchronously with the founding in England of "The Society for Equitable Assurances on Lives and Survivorships," which commenced business in 1762. This society possessed all the essential features necessary for safely conducting an enduring life insurance company and during the course of years it merely became necessary to change certain details, principally in the way of adjusting rates according to the mortality tables compiled some time after the society's foundation and based to a great extent on its own experience. The premium payments were regulated in accordance with the age of the applicant, physical examinations were required, and provision was made for the necessary reserve. There were also provisions for the disposal of any surplus that might arise. This society truly may be called the parent of the present-day legal reserve insurance system.

Was this system of insurance successful and is it perfectly safe?

So successful was it that up to 1844 more than 140 companies or societies had been organized upon the same plan, but as the system was new and there was a lack of laws for its proper government, it is but natural to suppose that abuses and frauds arose and it became necessary to take parliamentary action for their elimination and to create restrictions for the safeguarding of the large reserves which were being built up. Various acts were passed, the first in 1844, which proved inefficient and was followed by more drastic legislation in later years, and it now may be stated that insurance under this system, when the company's affairs are honestly administered, is as safe as anything humanly conducted can be expected to be. It is based upon an experience covering more than 150 years and nothing short of gross mismanagement or a cataclysm could render nugatory the fulfillment of any contract entered into by any of the companies with a sufficient amount of

insurance in force to bring it within application of the law of average.

When was legal reserve insurance first established in the United States?

Between 1840 and 1850 thirteen legal reserve companies were formed in the United States, all or which, with a single exception, are still in existence and in a flourishing condition, and the following decade saw the establishment of many more. At first progress was made rather slowly, but following the Civil war the insurance business made enormous strides and there is at this time far more old-line insurance carried in the United States than in any other country in the world, England, Germany and France following next in order.

Have there been many failures of legal reserve companies in the United States?

Compared to the magnitude of the operations failures have been comparatively few and in the case of the mutual legal reserve companies their number has been so small as to be practically negligible. Due to the great impetus insurance received immediately following the Civil war a large number of new companies sprang up, and as the severe panic of 1873 came on during their formative years, it found some of them poorly prepared to withstand the depression which followed and continued a number of years, and about thirty succumbed. With two exceptions, the Charter Oak and the Knickerbocker, all the larger companies organized before 1862 successfully weathered the storm. Of the thirty companies which failed only about a dozen had any pretensions as to size even for that day. There has not been a failure in the case of a large legal reserve insurance company in over thirty-five years, although a number of small companies have been absorbed by larger ones.

When was fraternal insurance first established?

The existence of fraternal insurance in the ancient guilds already has been referred to and shortly after the suppression of the guilds in England we find the institution of the friendly societies, some of these dating back to 1634. Many of these bodies are in

existence in Europe today and they occupy about the same position as our fraternal insurance societies. When first instituted they aimed not only to pay stipulated amounts to the beneficiaries of their deceased members but in some instances even went to the extent of granting annuities. Not being versed in insurance matters, the organizers naturally made their rates too low in their desire to secure large memberships and the early history of these societies is much the same as that which now is in the process of making in the case of many of the fraternal organizations in this country. Assessments continued to grow in size and there was constant dissatisfaction among the members. At various times there were charges of fraud and mismanagement and these led to the passage of a number of regulatory acts by Parliament known as the Friendly Societies Acts. Though the condition of the societies has greatly improved through this much needed legislation and the exaction of more adequate rates it still leaves much to be desired.

When did fraternal life insurance first assume importance in this country?

Although a few societies having insurance as their main object had been founded before 1875, it was the quarter century from this date to 1900 that saw the rise of the majority of fraternal insurance organizations which exist in the United States today. As was the case with the friendly societies in England, their organizers were in most instances men who had little or no knowledge of the rudiments of life insurance. They placed their main reliance upon an extremely low and impossible monthly rate to attract a large membership, leaving to the future the task of working out their financial salvation. They laid too much stress on the infusion of new blood, treating the matter somewhat on the endless chain principle, and gave no thought to the very important matter of a reserve. Some of the more recently organized societies, profiting by the bitter experiences of their predecessors, gave this subject more consideration, but the provisions they made for the reserve element at their inception were so small as to be almost negligible. As a natural result it became necessary to raise the rates at various times as their members grew older. Some of the societies went under, others were compelled to raise their assessments to practically prohibitive figures on their old risks and as a consequence

these are shut off from any infusion of new blood, while the majority of the remainder are now either undergoing necessary rate adjustments or are seriously considering the same.

As the fraternal societies raise their rates do they establish or guarantee an individual reserve or surrender value to each policy holder, to be applied to his policy and to his alone, or do they relinquish the right to levy increased assessments as occasion or necessity may require?

No, as the rates increase, in some instances closely approximating old line charges, the reserves still remain general or collective reserves and as such applicable to the entire membership. In other words, the entire reserve may be taken, if necessary, to pay death losses to the beneficiaries of those who die young or soonest after joining the society, leaving to surviving members the problem of building up any additional reserves that may be needed. The power of levying assessments is retained through the so-called assessment clause which appears in the policies. This clause generally is veiled under various references to the by-laws of the society and these have the effect of incorporating the by-laws and the powers granted therein as part of the contract issued.

In view of the past experience of most of the fraternal societies, may the policies they issue be termed a desirable form of insurance?

Not for the forehanded man who has a long life expectancy before him. In fraternal insurance the tendency always has been to throw the burden on the older members, the increase in many instances amounting to more than five times the monthly rate paid upon joining, whereas in legal reserve companies issuing participating policies the net amount of the premium constantly diminishes with the passing years. This is as it should be, because when age comes on there frequently is greater need of insurance than in younger days and a smaller earning capacity to provide it. The seriousness of the situation of the man of 65 who needs insurance and finds himself deprived of it through any cause may be more clearly realized when we consider that the probability of his dying within the following year is more than four times greater than it

was at the time he was 40, and this will be increased to eight-fold before he reaches his 73rd year.

Is fraternal insurance advisable under certain conditions?

Yes, upon the broad ground that where its need exists most any kind of insurance is better than none. For instance, a man may require a greater amount of protection than he can afford to carry in a legal reserve company. In such cases it may be advisable, but the intending purchaser never should look upon it as anything but a temporary expedient, as his policy will not give him a guarantee of permanent insurance at the rate he is paying now nor at any definitely stated rate. It is true he may be informed by lodge organizers or deputies that the rate charged is amply sufficient to carry his policy to maturity, but that is not a guarantee set down in a contract, as thousands have discovered to their sorrow. Temporary insurance also may be secured from most all of the old line companies at a low rate, many of the policies granting renewal privileges or permitting conversion into whole life or other policies within a certain time from the expiration of the contracts. Many of these policies are entitled to participation in the profits, the dividends thus secured either reducing the annual premium payments or going to the purchase of extended insurance, as the policyholder may elect. These contracts have the advantage over any form of assessment insurance in that the insured has an absolute guarantee that the payment will not be raised during the term specified, and they may be secured for five, ten, fifteen or twenty year periods. While frequently a necessity, it should be remembered that no form of temporary insurance may be looked upon as desirable, as it often proves far more costly in the end.

Wherein do the assessment companies or associations differ from the fraternal insurance societies?

Practically in name and form of organization only. There is some difference as to minor details, such as the stipulation of a certain annual premium instead of the monthly payments or assessments and the absence of the lodge feature, but the general plan is essentially the same. While the premium is stipulated and in most instances some form of provision for a reserve is made, there is no guarantee that the rate will remain the same, as the policies con-

tain an assessment clause which in case of necessity renders void any verbal assurance that may be given that the rates are adequate and that there need be no fear of an advance in premium charges.

As to duration of life, how does the history of the assessment associations compare with that of the fraternal societies?

Not at all favorably. In proof of this it is only necessary to state that about nineteen years ago one of the most prominent actuaries in the assessment insurance field, editor of a journal in New York devoted to what he termed the natural or stipulated premium companies' cause, wrote a manual to further the interests of the various associations doing business on the assessment plan. His principal attack on the old line or legal reserve companies was that they were charging unnecessarily high rates; that the reserves annually credited to the individual policy-holders were larger than was required for mere insurance purposes and that the companies were extravagant in the matter of expense (loading) charges. To prove his contention he named eight of the largest associations then doing business on the assessment plan. As the eight associations were at that time the bulwarks of the assessment system in America, it is only necessary to investigate their subsequent career to dispose effectually of the gentleman's mistaken idea as to what constituted an adequate reserve. Upon examination we find that one of the eight has been changed over into a legal reserve company, several have been absorbed by younger associations, while the others ran upon that well charted rock known as an inadequate reserve and went under. It seems strange that so many men, otherwise seemingly well versed in insurance, constantly look upon the legal reserve as an asset instead of a liability. They do not appear to comprehend that the large sums tied up in the reserves are there for specific purposes—that they belong to the individual policy-holders and not to the company—and that every dollar of these funds will be needed when the policies mature, either through death, the payment of endowments or the drawing down of surrender values. It is also well to remember that the policy-holders receive interest on these funds and that the reserve on every contract is as inviolable as the member's personal bank account. He may draw it down and end his contract, he may borrow money upon it, or he may use it to purchase paid-up insurance or extended insurance. He is the absolute owner and the company merely acts as his trustee. It is only at his death that the ownership passes out of the policy-holder's hands. In such event the company takes his reserve, adds sufficient to it to make it equal the face value of the contract and turns the money over to the deceased policy-holder's beneficiary.

CHAPTER II.

THE VARIOUS ELEMENTS EMBODIED IN LEGAL RESERVE INSURANCE PREMIUMS AS COMPARED WITH THOSE OF FRATERNAL SOCIETIES AND ASSESSMENT ASSOCIATIONS.

What is the payment necessary to keep an insurance policy in force called?

In legal reserve companies it is called a premium; in assessment associations the same word also is employed except when necessity causes an increase in the rate, upon which the additional payments become known as assessments, while in fraternal insurance bodies the terms payment, rate, dues, and assessments are used.

Can the rate of payment be increased after a policy is issued?

In all contracts issued by old line or legal reserve companies the premium cannot be raised during the life of the policy, while in those of assessment associations and fraternal societies the inclusion of the assessment clause grants the power to exact additional payment whenever the need therefor arises.

What three factors or elements are embodied in every legal reserve life insurance premium?

The mortality, the legal reserve or self-insurance, and the expense elements form the basis of all legal reserve insurance premiums, thus practically creating three separate funds, to each of which the requisite proportions of the annual payment are credited.

How is the mortality rate established?

It is fixed upon what are known as mortality tables. These are based on the observation of 100,000 human lives, and although these life experiences do not provide an absolute rule they come so near it as to give a perfectly safe basis for mortality calculations. Thus, while we can not make prognostications on an individual, when we take a large number of lives into consideration we can tell within a reasonable degree of certainty how many will die each year at the various ages. The mortality tables show that of each 1,000 men alive at the age of 25 eight will die within the year; at 35, nine; at 45, more than ten; at 55, about nineteen; at 65, forty; at 75, ninety-five; at 85, two hundred and fifty, or one-fourth of the entire number then still surviving. We thus readily can see that the rates on the aged would be prohibitive unless some adequate provision were made for an individual reserve by means of which the risk gradually increases his self-insurance and lessens the company's liability. This is done by means of the level premium system, which strikes an average between what his mortality rate is at joining and what it would be if he lived up to the limit of his expectancy; in other words, in the earlier years of his contract the insured contributes more than his proportionate share of the mortality element, while in the later years he pays less. In making these calculations the earning power of his excess contributions is also taken into consideration, and the interest thus credited adds materially to his reserve and lessens the amount of the payments he otherwise would have to make. Life is governed by an inexorable law—we all must die—and the members of any insurance association must understand that, not as individuals but as a collective body, they must pay their own death benefits, whatever these may be, plus the expense of doing business. The only factors that may be relied upon to decrease the collective obligations they have assumed are the earnings on the reserve and the profits accruing through the early surrender of policies.

What is the object of the legal reserve and why is it necessary?

To thoroughly understand the object and necessity of the legal reserve, which also is known as self-insurance and practically constitutes the guaranteed surrender values set down in every old line

policy, let us for a moment imagine a large aggregation of individuals starting out to insure the lives of the entire membership, each for a fixed amount and at a rate of payment just sufficient to cover his mortality risk at the age of joining plus his proportionate share of the annual expenses. What would be the natural result? Why, the institution would be in a state of insolvency in the second year of its existence because it had merely made provision to collect an amount sufficient to meet the mortality rate on the members who had passed away during the preceding year and failed to properly care for the annually increasing death risk represented by the survivors. As the mortality element increases a fixed amount each year, due to the natural decrease in the life expectation, the institution's liabilities the second year would exceed its assets by just the sum total the surviving members should have been compelled to pay in addition to what they contributed the first year. This is purely a matter of simple mathematics and cannot be overcome by any amount of infusion of new blood, as has been so frequently claimed, because each new member becomes a survivor after the first year, and consequently helps to increase the liability instead of diminishing it. Thus it will be clearly seen that either an annually increasing rate or some equally safe plan must be adopted if any insurance institution is to endure. This fact was recognized early in the history of the regular insurance companies, whose actuaries also saw the futility of adopting the gradually increasing scale, as this naturally would throw too heavy a burden on the aged and in many cases force them to give up the much needed protection. As a compromise, and a very successful one, as time has amply demonstrated, they adopted the level premium system, by means of which, as heretofore has been stated, the payments for the life term are equalized, the insured paying in excess of his mortality risk when joining, but less than the actual cost at a later period of his life expectation. This, of course, is made possible by bringing into the equation the earning power of the insured's reserve, which is annually augmented by the accumulated interest.

Does the legal reserve belong to the insurance company or to the policy-holder?

The legal reserve or surrender value is the individual property of the policy-holder during his lifetime, the company merely exer-

cising a trusteeship. It is only upon the death of the policy-holder that the company may assume control of his reserve, and then only for the purpose of paying his own death claim. The legal reserve is a liability, not an asset, and it must always remain intact. Any company whose reserve is in the least impaired is bankrupt, notwithstanding the fact that the balance of the legal reserve fund still in hand may mount into the millions. The legal reserve is frequently referred to as the banking feature of life insurance, as it is as much under the member's personal control as a savings account. He may draw it and end his insurance, borrow upon it or use it to buy paid up insurance or extended insurance, as he elects. If he continues his regular payments the value of his reserve increases year by year.

Although treated as separate factors for purposes of calculation, is it not a fact that the mortality and expense elements are combined as one?

Yes, this to a degree is true, as all death claims except that portion represented by the various individual reserves of the members who die is paid out of the expense fund. But it must be borne in mind that the mortality element always must be reckoned with as an almost unvarying factor and a certain proportion of the annual premium paid set aside for this purpose.

Do fraternal insurance societies and assessment associations also maintain reserves?

Yes, a large number of them do, but these are not what are known as individual or legal reserves. They are usually termed reserves, general reserves, or mutual reserves, and belong to the collective membership. For purposes of bookkeeping and to fulfill other requirements individual allotments are frequently made on paper, but the assessment clauses in the policies render void any individual allotment when an occasion arises in which the funds are needed to pay collective death benefits or for any other necessary purpose.

What is any insurance company, assessment association or fraternal society obligated to do?

Simply fulfill the specific pledges made in its policies and obey the laws in the states in which it is operating. The insured has

nothing but his policy and the law to fall back on, consequently he is not acting in justice to himself if he fails to closely examine any policy that is delivered to him; that is, unless he has implicit confidence in the agent or representative with whom he deals. When a policy becomes a claim, or if any future dispute arises, rosy promises and forecasts count for naught. Then the only thing given consideration is the Shylockian query: "Is it so nominated in the bond?"

Why is the legal reserve element of life insurance also frequently referred to as the reinsurance fund?

Because so long as the legal reserve fund remains intact any company desiring to quit the insurance field or to consolidate with a stronger concern may do so readily by transferring the necessary reserve to the other institution. In other words, it reinsures its risks, and this can be done only by paying over the required amount of the accumulated self-insurance (legal reserve or guaranteed surrender value) with each policy thus transferred, hence the term reinsurance fund.

CHAPTER III.

VARIOUS FORMS OF POLICIES ISSUED BY LEGAL RESERVE OR OLD LINE INSURANCE COMPANIES AND WHEREIN THEY DIFFER.

Which is the best policy (contract) for the man contemplating the purchase of life insurance?

This is a problem that always confronts the applicant for insurance, and so many equations enter into the consideration of the question that it is impossible to apply an inflexible rule to cover the case of the individual policy-holder. No man, especially one in good health, knows when he will be called upon to answer his final summons—whether early, late, or at an intermediate period of life. If a man knew that he had but a short time to live some form of temporary insurance would be the best policy for him to take out, as it would answer all his requirements and be the cheapest protec-

tion he could secure for his dependent loved ones. But no healthy man should assume that he is likely to be among the minority who die young. Rather, he has a good basis for the assumption that he may at least live to the time which is computed as forming the average expectation of life of those having reached an age similar to his own. Consequently he should not only make provision for this period but also consider the possibility that he may be among those whose expectancy exceeds the average and even among the comparative few who attain extreme age. All of these contingencies may be readily provided for by the different forms of policies issued, and, while youth is the golden age in which to take out insurance, owing to the low rates then effective and the diversity in choice of contracts offered, still the legal reserve feature also makes possible issuance of policies on the lives of those who have passed the meridian at rates that are not exorbitant when all the benefits conferred are taken into consideration. As a general proposition it may be stated that some form of limited payment life or long term endowment is the best policy for the young man, while an ordinary life contract is best suited to the needs of those who have reached or passed the intermediate age.

What is an ordinary or whole life policy?

As its name implies, the ordinary or whole life policy is based upon the assumption that it will be carried during the natural term of existence of the insured and consequently become a claim for its face value upon his death. This was the first and for many years the only form of life insurance written by legal reserve companies, and the term ordinary was applied to it because all the policies issued carried the customary or "ordinary" provisions then in vogue. Even today practically half of all the insurance written is upon the whole life plan, and all other forms of policies are based upon it. Every contingency is amply covered, as the ordinary contract carries full surrender value and paid up or extended insurance privileges, and it is the form of insurance which especially appeals to the applicant of middle age, because it is the cheapest permanent life protection he can procure. It should always be remembered that in all forms of policies the underlying principle is the same—the legal reserve—and that all special feature policies are based on annual contributions to this fund in excess of the actual amount

required for the whole life contract. Every form of old-line insurance except what is known as temporary insurance is in reality endowment insurance—not an endowment equaling the face of the policy, it is true, but an endowment the amount of which is governed by the number of years he has contributed to the reserve or self-insurance fund, and which will, in fact, in the case of a whole life contract, equal the face of the policy and mature it as a full endowment when the insured has reached his 96th year. This is based upon the experience in the American mortality table that of 100,000 lives under observation the last survivor has succumbed at the age of 96. As an illustration of how the reserve works, let us take the case of a man who secures a $1,000 ordinary life policy at the age of 45. At the end of twenty years his reserve, self-insurance, endowment, or whatever else one might see fit to call it, would have grown to over $440. After twenty-five years, or at the age of 70, it would be nearly $550. In fifteen years it would be over $325. These reserves are always under the control of the policy-holder and they begin when the policies are either two or three years old, depending upon the rules of the company in which the insurance is secured. The premium on an ordinary life policy is payable as long as the insured lives, unless he should decide to take the amount of paid up or extended insurance to which his accumulated reserve entitles him and thus discontinue further payments.

What is a limited payment life policy?

A limited payment life policy is practically the same as the whole life contract, except that the premium rate is so arranged that the insured, instead of continuing to pay annually throughout life, will have contributed to the legal reserve, during any term specified, an amount sufficient, with its earning capabilities, to carry the contract to completion. This form of policy may be secured for annual payment periods running from five to thirty years, although what are known as the fifteen and twenty payment life policies have always proved most popular. The limited payment policy appeals especially to the young and to those in early middle life, as the premiums are payable during their most productive years, leaving them exempt from further payments long before they reach old age, a time when continuing contributions often

prove burdensome. The twenty payment life policy is not at all a bad contract even for the man who has reached the age of 45. Let us see how a $1,000 policy would work out in his case. By the addition of a comparatively small amount annually over what he would be compelled to pay for ordinary insurance he would, at the age of 65, be in possession of a fully paid up policy, exempt from further contributions, and, if his insurance were of the participating nature, entitled to continuing dividends. As the legal reserve is what is known as the old age protection feature of life insurance, it is also interesting to know how he would stand in that respect. By consulting the table we find that at the end of twenty years his reserve has grown to $723.24, and each year thereafter it continues to increase, though his payments have ceased. As he may receive this reserve in cash, if he so desires, or borrow upon it, truly it is old age protection. The man entering at the age of 35 would have accumulated $609.92 at the end of twenty years, and a young man of 25 taking insurance on this plan would have laid up $504.59 in the same time. Naturally, both the accumulated reserve and the premium payments differ for the various ages, but the basis of calculation is always the same—life expectation at certain attained periods.

What is an endowment policy?

An endowment policy is a contract in which death is taken into consideration only as one of two factors, because the face value of an endowment must be met at the end of the stipulated period, or, to put it in another way, the financial result to the company in the case of a straight endowment policy is the same whether the insured be living or dead after his last annual premium has been paid. Endowment insurance may be secured covering most any term of years, and premium charges are equalized accordingly. The twenty year endowment is probably the most popular form of this class of insurance, but, as the time within which the claim must be met is relatively short, the premium naturally is comparatively high. The 20-year endowment cost to a man at 45 is not much greater than that to one of 30, because if both are acceptable risks the likelihood of the man of 45 being alive at the time of the endowment maturity is not much smaller than that of the man at 30. There is a difference of less than ¼ of 1 per cent

in the mortality element in favor of the younger man at the time of entrance, but it will have grown to over 2½ per cent at the time their endowments mature. Most young men take kindly to the 20-year endowment idea, but many later on find the payments onerous. For the average man at 25 the 30-year endowment probably would prove a far better policy. However, this is a matter in which the final decision always rests with the prospective risk, as he best knows the probability of his being able to meet the annual premiums as they become due. Endowment policies, in addition to the usual surrender or loan values embodied in the legal reserve, also carry paid up and pure endowment features, the former being effective after the second or third year, depending on the company, and the latter when the amount contributed to the reserve is sufficient, in case premium payments are discontinued, not only to carry the necessary extended insurance to the end of the policy term but also leave a surplus to be turned over to the insured when his contract matures.

What is a limited payment or deferred endowment policy?

A limited payment or deferred endowment policy occupies the same position relative to the straight endowment that the limited payment life does to the ordinary or whole life contract. The annual premium rate is so adjusted that the payments made during a specified term, with the interest accumulations thereon, will be sufficient to equal the face of the policy when the date of its full endowment maturity arrives. Rates on some of these policies in their early stages are considerably higher than for straight endowments, while on others they are lower. It all depends on the terms for which they are written. For instance, a 10-payment, 20-year endowment costs more per annum during the first ten years of life of the policy than a 20-year straight endowment, although at the end of the twenty year term, or at maturity, the actual amount of cash contributed will be less, owing to the interest earnings on the excess payments made during the first ten years. On a 20-payment, 30-year endowment, on the other hand, the annual premium for the twenty years will be considerably less than on a 20-year straight endowment, because in the case of the limited payment policy settlement is deferred for ten years after the premiums cease.

What is a single payment life policy?

A single payment life policy is that form of insurance in which the risk contributes the full amount of legal reserve necessary to carry his contract to maturity upon entering the company. Little of this insurance is written, the lump sum payment naturally being prohibitive to most people.

What is a joint life policy?

A joint life policy is a contract insuring two people but paying only a single death benefit—to the survivor. Insurance of this sort, as a rule, is written only on man and wife or upon business partners. It has the advantage of costing less than would two separate contracts, as the reserve element figures on one life only, a composite age based on the difference in years between the insuring parties where such difference exists. As the contract ceases when one of the insured risks dies, the second life is viewed simply as a temporary risk and rated accordingly. Joint life policies may be secured in any of the more popular forms of insurance.

What is temporary insurance?

Temporary insurance is life protection covering only a limited period of time. It may be secured for five, ten or twenty year periods and is the cheapest form of insurance issued by legal reserve companies. However, like most cheap things, it often will be found most expensive in the end. True, many of the temporary insurance policies have renewal privileges, but with each renewal the rate advances, until finally he who has survived the various renewal terms and still needs life protection finds himself facing the unpleasant fact that the temporary insurance string has played out and if he wishes to continue he will have to take ordinary insurance at his then attained age or dispense with it altogether. During the past he has not contributed a sufficient amount to build up an adequate reserve to cover his rapidly increasing mortality rate and consequently finds himself in much the same position as the fraternal society member who in old age is confronted with an advance in rates so large as to prove a most disagreeable surprise.

What is tontine insurance?

Tontine insurance is a form of contract designed especially to favor the survivors at the expense of those who die young. The

policies of those who die within the tontine period are not entitled to receive any of the dividends declared, these being used to augment the policy values of the survivors in the same class. Tontine insurance has been little written since an enactment by the New York legislature in 1906 made illegal the issuing of this form of insurance in that state.

Are there any other forms of policies besides those heretofore mentioned?

Yes, a man may secure policies covering almost any contingency, but they are all based on the legal reserve and its earning power. A form of policy which has become quite popular of late is that in which provision is made to pay the beneficiaries of the decedent the amount of insurance issued in a certain number of annual installments, usually twenty, instead of in one lump sum. This policy has much to recommend it in that it is certain to place dependents above want for a number of years, whereas if they received the whole sum in a single payment the money might be squandered or lost in injudicious investments, thus defeating the purpose for which the protection was originally secured. Insurance of this kind also has the advantage that it is cheaper than ordinary or whole life insurance because the whole claim does not become due at death, the interest earnings on the annual unpaid balances cutting quite a figure in the equation. The appeal of annual installment insurance is strongest to those who can afford to carry a large amount of protection, although the man who carries but a moderate amount may safeguard his family by designating that the payments shall cover a period of five or more years.

In the event of early death do not all policies answer the same purpose?

Yes, when death takes place all policies call for their face value and the young or middle aged man who carries high class insurance and dies in his prime pays a high rate for his life protection. But no man is justified in assuming that he is going to be among the minority who die young. He should base his calculations on the average duration of life, with the possibility in view that he may exceed it, and arrange his life protection accordingly. While a man's dependent loved ones always should come first, his

own old age, possibly to be spent with them, also should receive consideration. This can be accomplished in two ways by the seeker of insurance—either by carrying sufficient of the ordinary protection to make his reserve an item of some importance in later years or else by securing high class policies which guarantee large surrender values. Old age protection is a matter which should not be overlooked in the consideration of life insurance. Many a man has insured himself with the primary object of protecting his family, has outlived them all, and been enabled to spend his declining years in comfort on the reserves he built up without a thought that he himself would ultimately use or need them.

CHAPTER IV.

DIVIDENDS (PREMIUM ABATEMENTS OR PREMIUM REFUNDS) AND THE VARIOUS SOURCES FROM WHICH THEY ARE DERIVED.

What is a life insurance dividend?

A life insurance dividend, so called, is that portion of the annual premium paid by the insured which has been found by actual experience to be in excess of the company's estimated requirements for mortality and expense purposes, and which is returned to the policy-holder at stated intervals by all old-line or legal reserve companies writing insurance on a participating basis. These premium returns also are known as premium abatements, which is a better term, and as premium refunds, which probably more clearly expresses the exact nature of these repayments than the more commonly employed word "dividends." There is little doubt that the constant use of the latter term has been the direct cause of much of the political agitation carried on against old-line insurance companies, and this frequently has resulted in adverse legislation, especially in the matter of taxation. Being constantly confronted with the word "dividend" in insurance literature, many of the legislators, totally unfamiliar with the principles of life insurance and not comprehending what these so-called dividends really were, jumped to the conclusion that the companies were

enormous profit-earning institutions whose dividends and surpluses should be heavily taxed. We had a fair example of this in our national legislature a few years ago, when the flood of letters received by members of Congress from policy-holders in mutual companies caused them to exempt these institutions, as well as the fraternal societies, from the operations of the act then passed. It is to be hoped the recipients of these letters have a better comprehension of legal reserve insurance than they had before they received them. A mutual insurance company is not organized for profit-making purposes; it is organized, or at least should be, to secure for its members the benefits of protection at as low a cost as proper regard for permanent solvency, combined with honest and economic administration of its affairs, can provide it. Consequently any advances made by the policy-holders to insure absolute safety, and which are refunded to them when found not to be needed, can in no sense be looked upon as profits. They are merely charges returned to them when it is possible to fix the annual cost of their insurance with mathematical exactitude—when the year's business has been concluded and the expenses are definitely known.

Is it necessary, for purposes of safety, to make the annual overcharge which later is returned in the form of dividends or premium refunds?

To assure absolute security it is necessary to make an annual overcharge, because, as explained in the answer to the previous query, it is impossible to forecast the exact amount that will be needed each year. While the average death rate during a fixed period of time is practically the same, it will vary slightly year by year, consequently provision therefor must be made beforehand. There also are other expenses and fees that must be given consideration, such as the imposition of unexpected taxes, etc., because insurance legislation frequently changes in the various states. For this reason it is necessary to have an adequate surplus in addition to the required reserve, as the latter can not be used for any purpose other than the one for which it originally was set aside. It must be remembered also that in all legal reserve insurance the premium charge is definitely fixed and under no circumstances can the rate of annual payment be raised during the life-

time of the policy, hence the added safety of the initial overcharge. As the primary object sought is to render every contract absolutely secure the provision is a wise one and deserves commendation rather than cavil, especially in view of the fact that the overcharge is refunded to each policy-holder when the dividend period arrives, thus giving him his protection at the annually determined net cost.

From what sources, in addition to the annual premium overcharge, are insurance dividends derived?

Besides the saving effected in the difference between the estimated and the actual annual mortality rate and the expenditure of a smaller amount of money for emergency purposes than that for which provision had been made were necessity to require it, the excess of the actual interest earnings on the reserve over the estimated rate is also a large factor in producing dividends. Then there are the profits which accrue to the company through lapses—the discontinuance of premium payments by policy-holders before their contracts have been in effect a sufficient length of time to entitle them to surrender values equivalent either to the greater portion or the full amount of their accumulated reserves. This was formerly one of the greatest dividend-producing sources in participating insurance, but as during recent years it has become almost a universal custom to guarantee surrender values at the end of the second or third policy year, these surrender values in some instances being equal to the full reserve on the policy, the lapse does not figure as prominently in the dividend equation as it did in the earlier history of life insurance. Any rise in the market value of stocks and bonds in which the funds of a company may be invested also contributes toward enlarging the premium return—that is, any advance over the book value, or price at which the securities were purchased, at the time they become due or are otherwise disposed of.

Is there not another factor besides those mentioned which probably contributes to a greater degree than any other to the annually increasing amount of the premium refund paid by all legal reserve or old-line insurance companies writing participating policies?

Yes; this is what is known as the reduction in the individual policy-holder's mortality charge coincident with the annual increase of his self-insurance as represented in the legal reserve. As an illustration, let us take the case of a man who secures a $1,000 ordinary life policy at the age of 40. In the first few years following the issuance of his policy his reserve would not be large enough to materially influence his mortality charge, but at the end of his fifteenth policy year his reserve would represent a self-insurance fund of over $275. Consequently he then would be protecting his own life to that extent, while the company's risk would be less than $725 at that period, whereas it originally was the full $1,000. Therefore an appropriate refund is allowed the policy-holder. At the end of the twentieth year the insured's self-insurance will have grown to over $380 and the company's risk fallen to less than $620. When twenty-six years have passed the policy-holder's reserve exceeds half the face value of his contract, consequently in the event of his death at that period, or at any time thereafter while his policy is still in force, he will be contributing a larger amount toward the payment of his own death benefit than will the insuring company. That is why any form of old-line insurance except that of a temporary character may with perfect propriety be called endowment insurance. The accumulated reserve may be drawn at any time the insured desires to terminate his contract or he may avail himself of any of the other provisions stipulated in his policy. It thus will be seen also that all old-line participating insurance, by means of the very necessary legal reserve or self-insurance fund, has brought about that ideal protection system whereby the net annual premium rate constantly decreases with advancing age. This is as it should be, for the average man needs insurance all his life, and he needs it most not in his younger days, when the prospects of his dying in the near future are comparatively slight, but at the time of life when the chances of his being called to answer the final summons are increasing annually at an alarming rate.

Why is participating insurance especially desirable in what are known as limited payment life policies?

Because in participating insurance limited payment life policies continue to draw dividends after the annual premium payments cease, which is not the case in non-participating contracts. The dividend on this paid up insurance is largely based on the an-

nual increase of the reserve through its interest-earning power after the regular premium payments have ceased. To illustrate: A man at the age of 35 takes out a $1,000 20-payment life policy. At the end of twenty years, when his payments cease, his self-insurance or reserve will amount to over $600 and the company's risk the following year will be less than $400. The interest on the $600 of self-insurance will carry all the elements of the $400 risk still carried by the company, and thus continue annually to decrease the cost to the company through the further growth of the policy-holder's reserve, any excess in interest earnings, plus the mortality saving for the year, being refunded to the insured.

Do old-line stock companies also write participating contracts or is this form of insurance confined solely to the mutual legal reserve companies?

Some of the legal reserve stock companies write participating policies, some issue both participating and non-participating contracts, while others, and this probably includes the majority, confine themselves solely to writing non-participating insurance. The annual premium rates on participating policies written by stock companies naturally are higher than those charged for non-participating contracts issued by the same companies, but the overcharge is equalized by later dividend declarations, in exactly the same manner as is customary with mutual institutions. There is this distinction, however, always to be considered—namely, that whereas in purely mutual companies only the policy-holders are concerned in the dividend declarations, in stock companies the rights of the shareholders also must be taken into consideration when the profits are distributed.

Which is the best form of contract for the prospective risk, participating or non-participating insurance?

This is a question which cannot be answered offhand because too many equations enter into its consideration. The nearest approach to a definite reply would have to be based upon the further query: How long, in all probability, would the contract be likely to continue? Which naturally again brings us to the point where the applicant's expectation of life at his then attained age would have to be taken into consideration in arriving at a conclusion unless he knew positively that he would not require further insurance after the expiration of a certain period of time. As a general proposition it may be stated broadly that non-participating insurance is cheapest during the first ten years of a policy's life, but after the expiration of that time the gradually increasing dividends on a participating policy will have placed it on a parity with the non-participating contract in the matter of annual cost, and thenceforth, under ordinary conditions, the yearly returns will show a constant gain in favor of the participating policy. That is why participating insurance should always receive due consideration in all whole life contracts, and particularly where limited payment life policies and paid up insurance are concerned.

Based upon past experience, about what result would the annual dividends have in decreasing the net cost of a policy during a term of twenty years?

This depends to a great extent upon the company and the nature of the insurance in force and the economy and ability with which the institution's affairs are conducted, ill considered loans and other poor investments not being conducive to large dividends. In mutual companies the premium refunds on contracts carried twenty years or over have run all the way from less than 15 to over 25 per cent of the annual premiums paid. Somewhere between 18 and 20 per cent probably would represent a fair average. A few of the stock companies writing participating insurance also make excellent dividend showings over a long period of time. It always is a good plan to take up the matter of average dividends paid in the past with the representative of any company seeking to insure you, as the yearly premium refund is what determines the net annual cost of your insurance. However, too much weight should not be given to results secured over twenty-five years ago, as interest rates have fallen greatly since that time, and interest is one of the prime factors in producing insurance dividends.

CHAPTER V.

ON THE PROPER CHOICE OF COMPANIES IN WHICH TO PLACE LIFE INSURANCE—PROVISIONS AND GUARANTEES THAT SHOULD BE INCLUDED IN EVERY UP-TO-DATE POLICY.

What is the first thing to be considered in taking out life insurance?

Permanent safety, by all means. When a man buys protection he is not looking toward tomorrow or next week or next year; he wants every reasonable assurance that the company which assumes the risk on his life will be in existence and perfectly solvent when his contract becomes a claim, even should that time be fifty or more years hence.

What is the best assurance a company can offer as to its permanent security?

That it carries from year to year, in addition to the legally required reserve which is the property of the individual policy-holders, a surplus or expense fund sufficiently large to meet any extraordinary conditions that are liable to arise.

In considering the strength of the surplus of the various companies should the calculations be based merely on the actual amount so held by each company or should they be figured proportionately to the total amount of insurance each institution carries?

Always in proportion to the risk carried, provided the smaller company has a sufficient amount of insurance in force to make the law of average available. One company might have a surplus fund many times larger than another and yet the institution with the smaller amount be relatively much stronger from the surplus standpoint. Large columns of figures cannot always be viewed as the greatest safeguard and they frequently lead to misconceptions. The matter of liabilities also should be considered in connection

with the review of any company's assets, and it is well once more to draw the reader's attention to the fact that the legal reserve is purely a liability—the individual bank deposits, so to speak, of the various policy-holders of the company. Care also should be taken never to confound the surplus with the legal reserve. While the reserve is collected for a specific purpose—to meet the yearly increase in the individual member's mortality rate—the surplus is a fund annually set aside to meet regular expenses and emergencies.

Having considered the matter of safety, what should the prospective policy-holder next ascertain?

He should see that his contract contains every favorable provision of the modern policy not incompatible with perfect permanent safety. By this is meant the usual form of contract now issued by practically all first-class up-to-date companies.

What provisions should every up-to-date policy contain?

Every modern insurance policy should provide for a surrender value at the end of the second or third year, and the amount of the surrender value at the close of that and each succeeding year should be clearly set down in the contract, together with the amount of paid up insurance it will buy at the various terms, also the length of time it will continue his full amount of protection in force without further payment in case the policy-holder should decide to avail himself of the extended insurance feature. In addition to this the policy should state specifically that it is incontestable after one year from date except for fraud, and it also should waive the right to contest in case of suicide after the first year. In participating policies provision should be made for regular dividend periods, preferably yearly, and dividends should continue on paid up insurance. A policy granting extended insurance without a physical re-examination is to be preferred to one that does not, and after a policy once is issued there should be no restriction as to change of occupation within a reasonable length of time unless the work is extra hazardous. While there may be other slight variations in the policies issued by the different companies, they are of minor importance, but the prospective risk should see that those specifically mentioned here are covered in his contract.

Reverting to the matter of safety, what, in addition to a sufficient surplus, should be given due consideration by the prospective policy-holder?

Honesty and efficiency in the management of a company's affairs, because without these all other provisions might come to naught.

What is the best assurance one can secure as to the matter of honesty and efficiency in the conduct of any life insurance institution's affairs?

Companies are largely like the individuals of which they are composed—we judge them by their records. An honorable and successful career during the past is the best guarantee any business institution can offer as to the proper conduct of its future affairs. There are a number of good insurance companies in this country which have been in existence all the way from twenty-five to seventy years and have built up large reserves to assist in meeting mortality losses in addition to surpluses ample to cover any emergencies that reasonably might be expected to arise, consequently the present-day applicant for protection is not confronted with the same doubts that assailed past generations along these lines at a time when legal reserve insurance practically was still in its infancy and was viewed more or less in a speculative light. The older companies now have the records of many years of actual results accomplished by themselves; therefore assumption has given way to what practically may be called certainty. The representatives of any of these companies always are ready to go into details with any one contemplating insurance to enable him to get some idea as to what the approximate net annual cost of his insurance will be. Hence by the exercise of a moderate amount of circumspection the average man will have little trouble in arriving at a satisfactory conclusion in the matter of placing his life insurance if he takes the past experience of a company as a guide. There are also a number of more recently organized companies in the field which have shown a remarkable growth during the past few years, with all indications that it will continue, and while it cannot be accepted as an absolute rule, it is nevertheless axiomatic that a successful past portends a bright future.

Is there any great difference in the premium rates of the various old-line companies for the same kinds of contracts beyond that naturally existing between participating and non-participating policies?

No, the premium rates are practically the same; they vary but a few cents on each $1,000 of insurance for the same class of contracts. It is but natural that their rates should be almost uniform, as they all are governed by the same rules as to legal reserve provisions and base their calculations on the interest-earning capacity of the fund thus established. In other words, all guesswork has been eliminated and everything worked out to a mathematical conclusion.

How can most assessment institutions usually be distinguished from old-line companies even without an examination of their policies to discover the assessment clause?

Through the fact that in the earlier years of their existence their rates almost invariably are considerably lower even than those charged by non-participating legal reserve companies for the same kinds of policies and lower than the charge which past experience, even the history of the assessment associations themselves, has proved is necessary if permanent insurance is to be provided.

Why should no form of assessment insurance be given consideration by any one seeking permanent life protection?

Because no assessment institution, be it company, association or society, issues a contract to complete a specific undertaking for a definitely fixed annual payment, and even where anything in the nature of a stipulated premium is mentioned in the policy it is rendered void by the clause or clauses which reserve the right to levy additional payments when needed. These assessment clauses are in some instances so ingeniously concealed in a mass of verbiage that it requires careful reading of the policy to locate them, reminding one of the aphorism attributed to Talleyrand that "speech was given man to disguise his thoughts." The whole question as to the desirability of buying assessment insurance is probably best answered by propounding another query: Would any man of sound business judgment subscribe to a contract for the perform-

ance of any task in which the undertaker merely signified his intention to do the work for a certain sum provided he did not need more money, and especially if he did not set a limit to his possible or probable future requirements? If he would not do this in the ordinary affairs of business life, then why should he assume the risk in a matter affecting both the interests of his dependents and his own provisions against need in old age?

Is old line or legal reserve insurance entitled to favorable consideration from any other viewpoint besides that of its primary object, the protection of the family in the event of death?

Yes, and this is a point upon which the representatives of legal reserve companies generally do not lay sufficient stress. While the primary object of life insurance is, always has been, and ever will be the protection of the home circle in the event of loss of its financial provider, yet the legal reserve or self-insurance fund—the individual policy-holder's bank account with the company if his annual deposits are not used to help meet his own death loss—makes possible the granting of many privileges that originally were not contemplated in the issuing of life insurance. In other words, a man does not "have to die to win" under the modern provisions of old-line insurance, because during the time he is carrying insurance for the protection of his dependent family he is constantly adding to his own bank account a fund that is ever available should adversity overtake him or circumstances arise which would render unnecessary the continuance of his insurance; so well is this feature of legal reserve insurance now recognized that the contracts they issue are frequently referred to as old age protection.

Why is the saving of money frequently accomplished by means of old-line insurance when it would not be done through any other agency?

Because the act occurs in connection with a duty that the conscientious man feels himself obliged to perform and in the performance of which he cannot avoid building up a savings fund for himself if he takes any insurance of a permanent nature in an old-line company.

In taking out a policy in a legal reserve company about how would a man fare, say at the end of twenty years?

That would depend largely on the age of the applicant at the time he took out his insurance and the kind of policy he secured. In the case of a twenty year endowment policy, for instance, the contract would have matured and he would receive its face value in cash. Based on the past experience of a number of participating companies, he would be justified in assuming that through the action of the annual dividends or premium refunds secured during that period the net cost of the $1,000 he would receive on a $1,000 policy at the end of the twenty year term would be somewhere between $825 and $875. Thus, in addition to having received twenty years' insurance protection for his family, the policy-holder would find himself in possession of a tidy sum in excess of his actual payments, or, to put it in another way, the interest earnings on his reserve and participation in other profits would be sufficient to carry his protection during the life of the policy and pay him quite a little interest besides. On a whole life policy the returns would not be quite so favorable at the end of a twenty year period, but it must be borne in mind that the annual payments also would be considerably smaller. On such a contract taken at the age of 40 the insured would have a surrender value in excess of $380 at the end of twenty years, and should he then decide to discontinue his insurance, he probably would find that the net cost of his $1,000 of insurance in a mutual company would not be much over $7.00 per year. With each added year the showing would be more favorable to the policy-holder, one of the strongest features of mutual or participating legal reserve insurance being that the cost constantly decreases as the policy grows older, and were this fact in connection with the reserve fully understood by the general public probably comparatively little other life insurance would be written.

In securing old-line insurance is it advisable to take out several different kinds of contracts or at least have the amount divided into two or more policies?

Yes; because the average man never knows what his circumstances may be a number of years hence, consequently it always is wise to provide for any contingencies that may arise. To the man

under 45 it may prove advisable to secure both endowment and limited payment life policies, as in that case under a twenty year contract his endowment would mature and become payable before he reaches the age of 65, while his other policy also would have become paid up and prove a source of future revenue instead of expense. The younger the age at which a man insures the more favorable, naturally, are his prospects. But even if a man is past 45 and concludes to confine himself to the whole life contract he had better divide his insurance into several policies (not necessarily in different companies), as, in case adversity overtakes him later in life, he may draw the cash or borrow on part of his insurance without surrendering or mortgaging the remainder. Life insurance is among the few things in which the rich and the poor are on an equality—there are no wholesale prices for large quantities. The rate per thousand of insurance is the same whether the amount be a thousand dollars or a million. Even the man who can afford to carry but a single thousand dollars of insurance may avail himself of the privilege of dividing it into two policies, as a number of good companies will be pleased to do this without making any increase in the premium charge.

What should every one, and especially the young man, avoid in seeking life insurance of a permanent character or even that which may be designed to cover only a specified number of years?

He should particularly shun anything in the form of life insurance which is offered at a price so ridiculously low that his reason and a few minutes' intelligent use of a lead pencil will convince him that any contract based on the figures quoted would be impossible of accomplishment. An insurance institution cannot sell protection at less than cost plus the expense of carrying on business any more than a merchant can dispose of all his wares at a loss and remain solvent. The business may continue for a while, but its collapse is sure to follow unless some means be found to provide funds to meet the constantly increasing liabilities. An assessment insurance institution writing contracts below cost merely has this advantage over an individual who might attempt to do business in the same manner—namely, that all the members jointly or severally agree, through the applications they sign and the policies they accept, that the officers or representatives they

select shall be empowered to levy additional assessments or contributions upon the policy-holders whenever they may be needed to insure further solvency. In other words, it is up to the policy-holders at all times to make good any actual or threatened deficits if the business is to continue unless they choose the alternative, as thousands have done, of discontinuing their insurance to avoid what may prove to be prohibitive additional cost at a time when it can least be borne. A man always should base his calculations upon the fact that in order to secure enduring insurance at a fixed price he will have to pay, during the period covering his life expectation at the time his contract was issued, an amount sufficient, with the added interest earnings on his reserve and other reasonable profits naturally accruing to the company, to meet the face value of the policy. At the age of 20 his life expectation would be over 42 years; at 30, over 35 years; at 35, over 31 years; at 40, over 28 years; at 45, over 24 years; at 50, over 20 years; at 55, over 17 years; at 60, over 14 years; at 65, a little over 11 years. The age of 65 is the usual limit in legal reserve companies for the issuance of whole life contracts, although a man may secure short term endowment insurance or 10 payment life policies in many companies up to his 69th year; or, to be exact, 69½ years. In seeking insurance the forehanded man looks for the best and is willing to pay the annual premium that is necessary to secure it, for he knows that of all "cheap" things "cheap" insurance is nearly always found to be the dearest and most unsatisfactory in the end. Hence he turns his back on all alluring prospects held forth that cannot be reconciled with cold figures and reason, for he knows they are but as the elusive marsh lights that beckon to the bogs of disappointment.

Can live insurance dividends be used for any other purpose than reducing the annual premium payments?

Yes, they may be left with the company to increase, at compound interest, the face value of the policy; they may be used to purchase additional insurance, or they may be employed to accelerate the maturity of the contract. In the latter event, whenever the reserve, plus the accumulated dividends and their earnings, has reached an amount sufficient to cover the face of the policy, the money is paid over to the insured and the contract terminated.

This method naturally shortens the policy term considerably. The disposition of the dividends in all standard forms of policies is always left to the option of the insured, either at the time of filing his application or when his first dividend becomes due.

Conceding the recognition of the practically universal need of life insurance, why will the average man probably be more successful in providing for his own future financial necessities in this manner than through other means?

Because when a man is brought to a realization of his duty to provide protection for others he assumes a responsibility which becomes one of the fixed items in his routine of life. His life insurance premium is looked upon in the same light as the rent he pays and as regularly met. In case of an emergency he would not hesitate to draw his savings from a bank, but he would think twice before either allowing his insurance to lapse or decreasing it through borrowing while great need thereof existed. And with the average man the need of insurance generally persists till he is past sixty years of age. After that period his children are usually grown up and married and the insurance need has been lessened. It is then that the provident man who has supplied himself amply with legal reserve insurance during his younger days may enjoy some of the fruits of the endowments or surrender values he built up in his thoughtful consideration of others. Taken in connection with its protection feature, which naturally outranks all others, there is no question that legal reserve insurance also offers the average man one of the best and safest means of providing for his own necessities later in life should the need exist. This fact is now so generally recognized that it is no longer debatable, the main consideration being to secure the insurance in a good company and at an age when the premium payments are not likely to prove onerous.

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